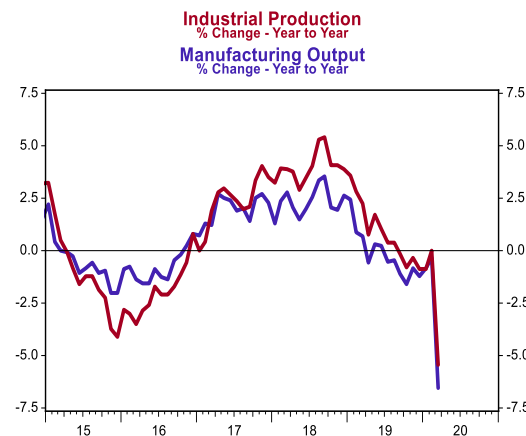


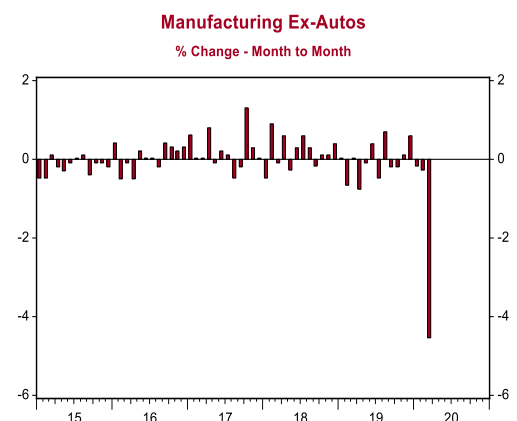
March Industrial Production / Capacity Utilization

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- Industrial production declined 5.4% in March, below the consensus expected drop of 4.0%. Mining output fell 2.0% in March, while utilities dropped 4.0%.
- Manufacturing, which excludes mining/utilities, declined 6.3% in March. Auto production dropped 28.0%, while non-auto manufacturing fell 4.5%. Auto production is down 26.5% versus a year ago, while non-auto manufacturing is down 5.0%.
- The production of high-tech equipment fell 0.1% in March but is up 5.5% versus a year ago.
- Overall capacity utilization dropped to 72.7% in March from 77.0% in February. Manufacturing capacity utilization declined to 70.3% in March from 75.0% in February.



Source: Federal Reserve Board/Haver Analytics



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Implications: Today's report on industrial production is our first look at the factory sector since broad-based shutdowns of the US economy to fight Coronavirus took effect, and boy was it a doozy. Headline industrial production and its manufacturing subcomponent plunged 5.4% and 6.3% respectively. These are the largest monthly declines for both series since early 1946, when the end of World War II led to a huge drop in armaments. Within manufacturing, auto production fell 28.0% in March, coming in just above the current record decline of 28.4% in Jan 2009 in the midst of the financial crisis. Given production shutdown since then, brace for an even steeper drop in April. Meanwhile, non-auto manufacturing fell 4.5% in March, the largest monthly drop on record. Mining output declined 2.0%, as extraction activity for oil, natural gas, and other minerals took a hit. The price of WTI crude is down roughly 68% since the beginning of January, pushing below the break-even level for many US producers, so we expect more weakness in this sector, going forward, as well. The crude oil market got hit from both sides, as global disruptions from the Coronavirus hit demand, while Saudi Arabia and Russia boosted supply in a quest to wash out US competitors. However, a recent announcement by President Trump that an agreement has been made with these producers to cut a significant portion of daily supply could help going forward, though cartel type agreements are notoriously unreliable. Later this year, as the pandemic is dealt with, prices will rebound, with mining activity rising close behind. In other recent manufacturing news, the Empire State Index, which measures factory sentiment in the New York region, fell to -78.2 in April from -21.5 in March. This is the largest monthly drop on record and brings the index to its lowest reading on record, signaling more ugly data from the factory sector is on the way. Look for major drops in other regional manufacturing survey as the full hit from Coronavirus lockdowns makes its way into the data. On the housing front, the NAHB index, a measure of sentiment among homebuilders, fell to 30 in April from 72 in March, the largest monthly drop on record. The decline was primarily driven by a deterioration in the outlook for future sales and buyer foot traffic. Look for a decline in home building in the months ahead, but not as much of a decline as overall US economic activity, as many work crews in the sector are still legally allowed to work.

Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Mar-20	Feb-20	Jan-20	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	-5.4%	0.5%	-0.5%	-19.9%	-10.3%	-5.5%
Manufacturing	-6.3%	-0.1%	-0.1%	-23.5%	-11.5%	-6.6%
Motor Vehicles and Parts	-28.0%	3.2%	1.4%	-67.8%	-42.6%	-26.5%
Ex Motor Vehicles and Parts	-4.5%	-0.3%	-0.2%	-18.6%	-8.9%	-5.0%
Mining	-2.0%	-1.3%	0.6%	-10.1%	-5.2%	0.0%
Utilities	-4.0%	7.0%	-4.6%	-7.9%	-8.8%	-5.1%
Business Equipment	-8.7%	-0.2%	-3.0%	-38.8%	-20.3%	-12.7%
Consumer Goods	-5.8%	1.4%	-0.9%	-19.9%	-9.1%	-6.3%
High-Tech Equipment	-0.1%	-1.0%	1.4%	1.3%	6.4%	5.5%
Total Ex. High-Tech Equipment	-5.4%	0.5%	-0.6%	-20.3%	-10.6%	-5.6%
Cap Utilization (Total)	72.7	77.0	76.7	3-mo Average	6-mo Average	12-mo Average
Manufacturing	70.3	75.0	75.1	75.5	76.4	77.0
				73.5	74.2	74.8

Source: Federal Reserve Board